



The Effects of Major Reforms on Workers' Compensation Rates in California

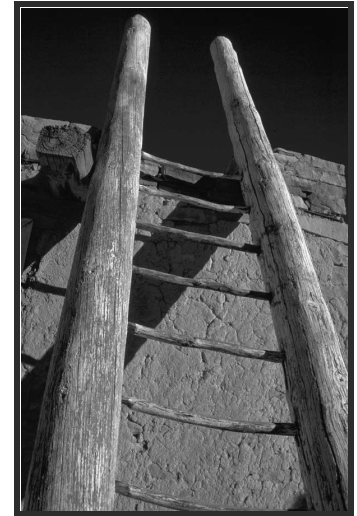
**CHSWC
February 9, 2006**

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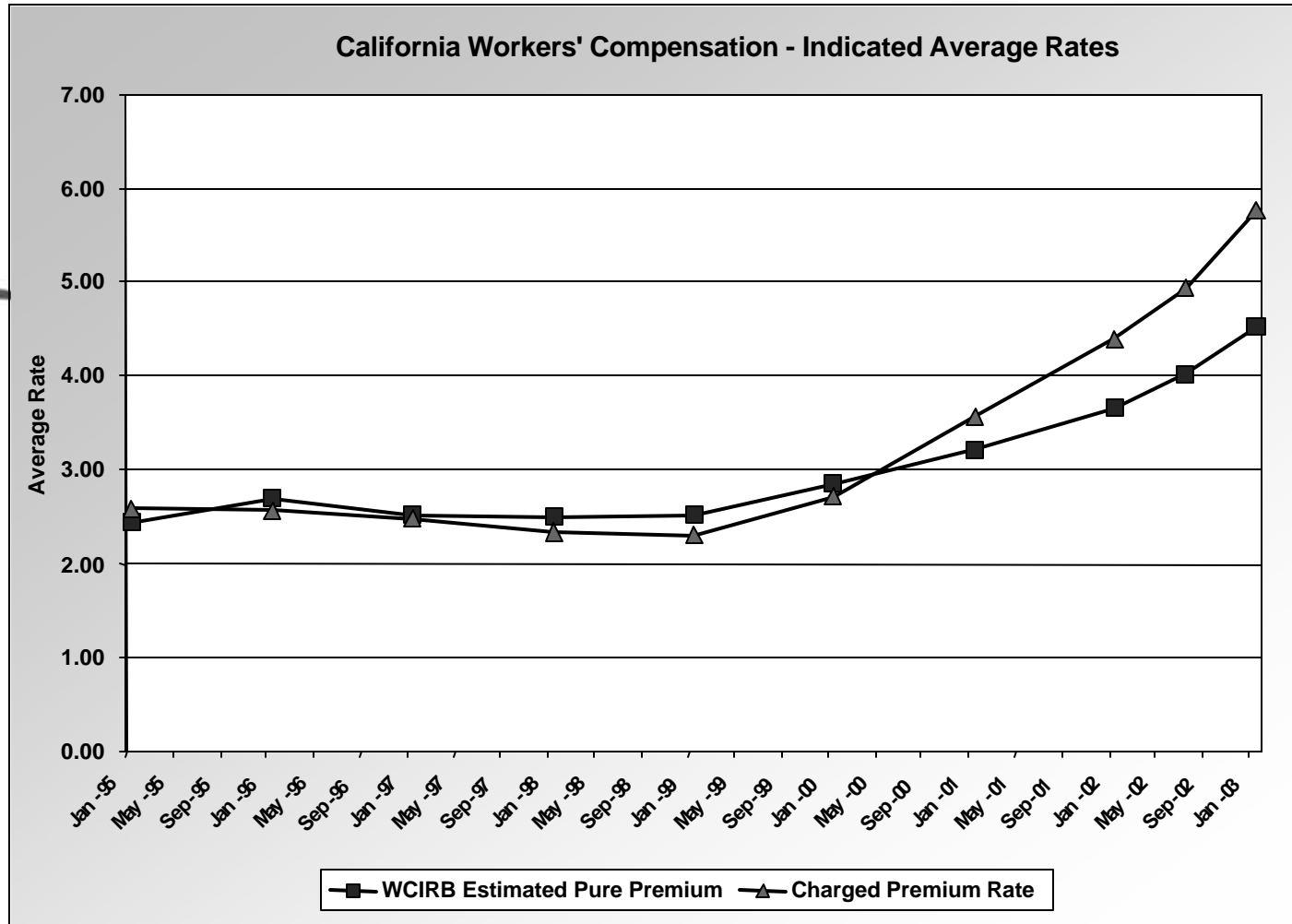


Conditions Leading to Reforms

- **Open Rating: 1995**
- **Claims Cost Increases**
- **Premium Increases**
- **Insolvencies**



Conditions Leading to Reforms



BRS Study of Reforms

- **Authorized by SB 899**
- **Initiated by DWC**
- **No Cost to Taxpayers (insurance industry assessment)**
- **Scope: Impact of Reforms on Claims Costs**
 - **Charged Premiums**
 - **Insurance Company Surplus**
 - **Marketplace/Competition**
 - **WCIRB/CDI Estimates**



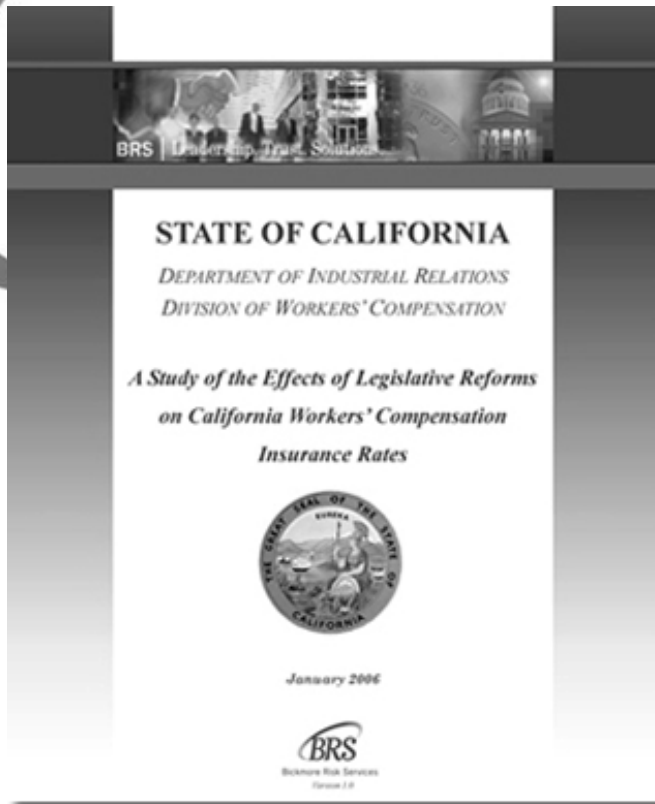
Scope of Study

Reforms Focused on:

- **AB 749 (2002)**
- **AB227/SB228 (2003)**
- **SB 899 (2004)**



BRS Study of Reforms



- I. Background Leading to Workers' Compensation Reforms**
- II. Scope and Approach**
- III. Claims Savings Generated by Reforms**
- IV. Effect of Reforms on Insurance Rates**
- V. Effects of the Reforms on Insurance Industry Surplus and Solvency**
- VI. Insurance Markets and Competition**
- VII. Adequacy and Accuracy of Workers' Compensation Insurance Bureau and California Department of Insurance Rates**
- VIII. Evaluation of Reforms in Other States**
- IX. Evaluation of Regulatory Structure**
- X. Areas of Further Research**



Limitations of Study

- **Fairness of Benefit Levels and Medical Fees**
- **Quality of and Access to Medical Care**
- **Effects on Self-Insurers**
- **Long Term Effects of Reforms**



Retrospective Impact of Reforms

•Overall Savings

Exhibit V.1. Impact of Reforms on Insurance Industry Reserves (2003 & Prior): (\$Billions)

Reform	Savings Active Insurers	Savings All Insurers
Medical Fees	\$2.3-\$2.6	\$2.8-\$3.1
Evidence-Based Medicine	\$2.9-\$4.0	\$3.4-\$4.7
Permanent Disability	<u>\$0.2-\$2.8</u>	<u>\$0.2-\$2.9</u>
Total	\$5.4-\$9.4	\$6.4-\$10.7



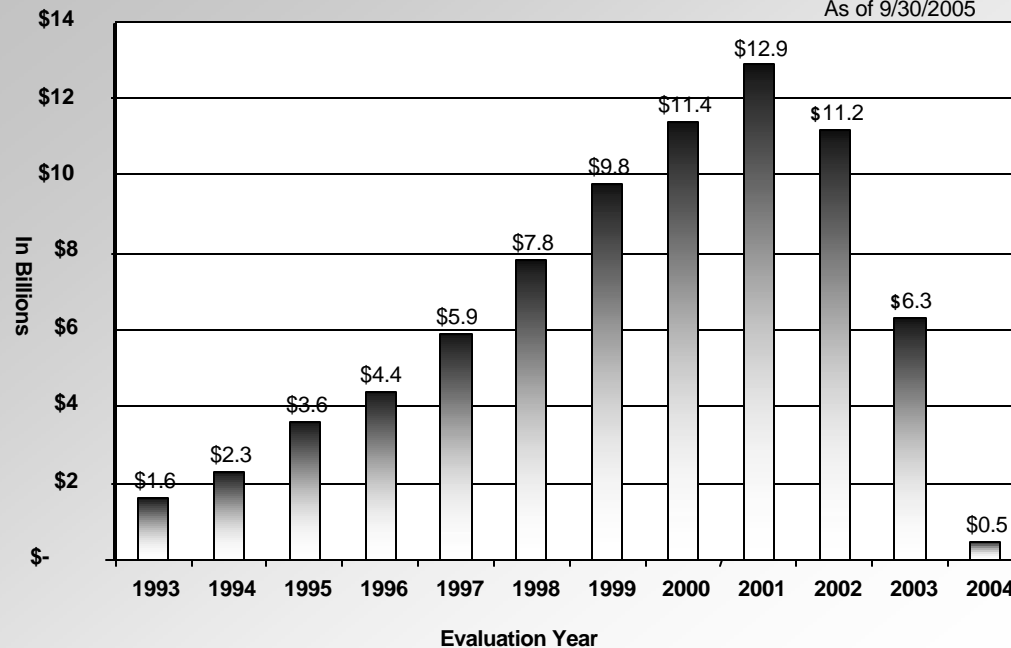
Retrospective Impact of Reforms

- **Historical Evaluations**

Exhibit V.3. Estimated Ultimate Losses Less Reported Losses at Successive December 31 Evaluations

(After Reflecting the Estimated Impact of AB 227, SB 228, & SB 899 on Unpaid Losses)

As of 9/30/2005

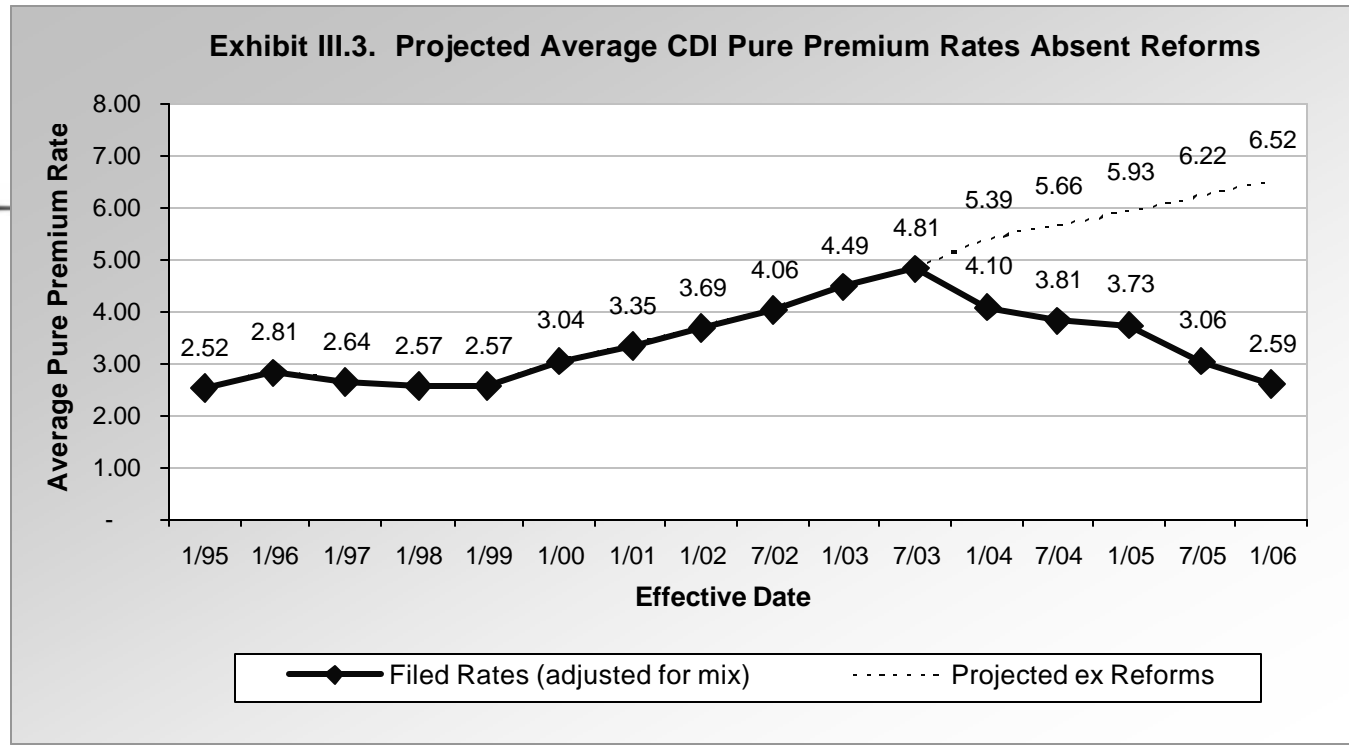


Source: WCIRB Quarterly Report at September 30, 2005



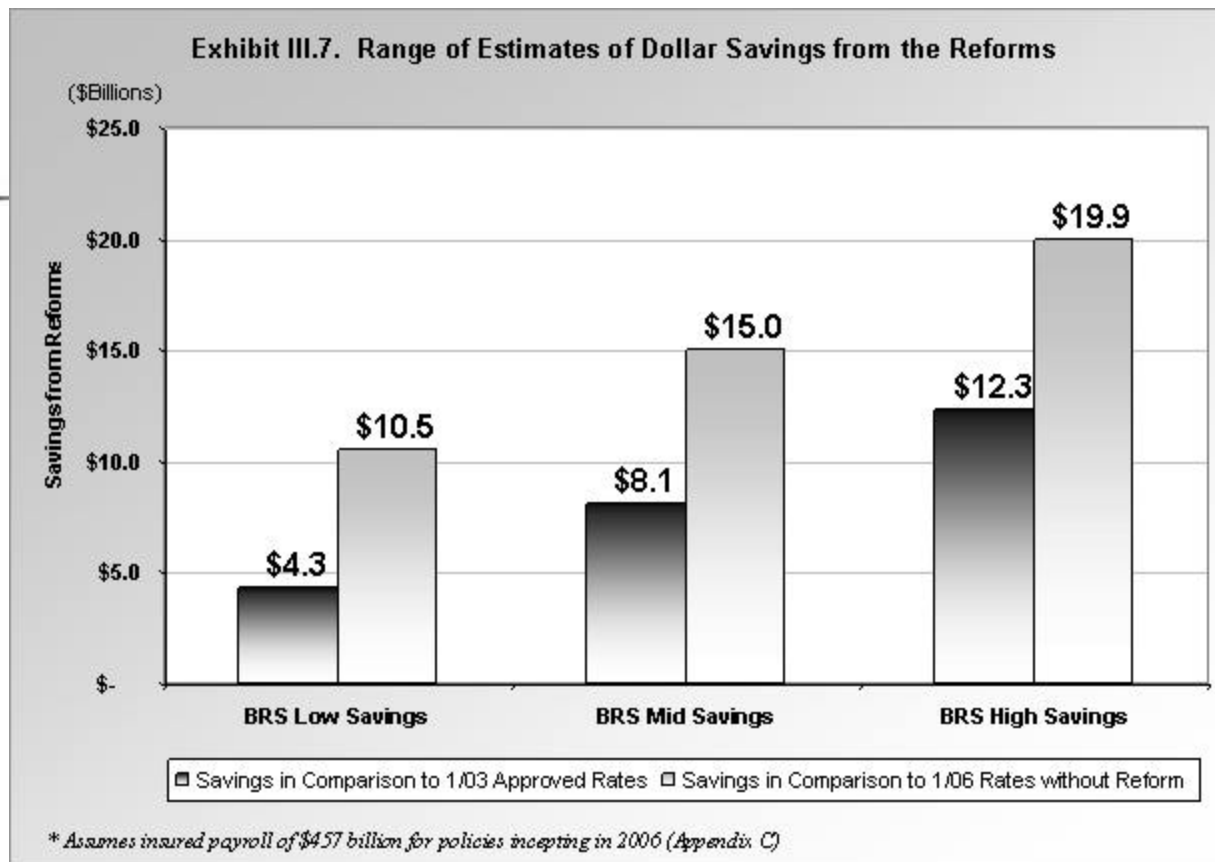
Prospective Impact of Reforms

- Claims Costs



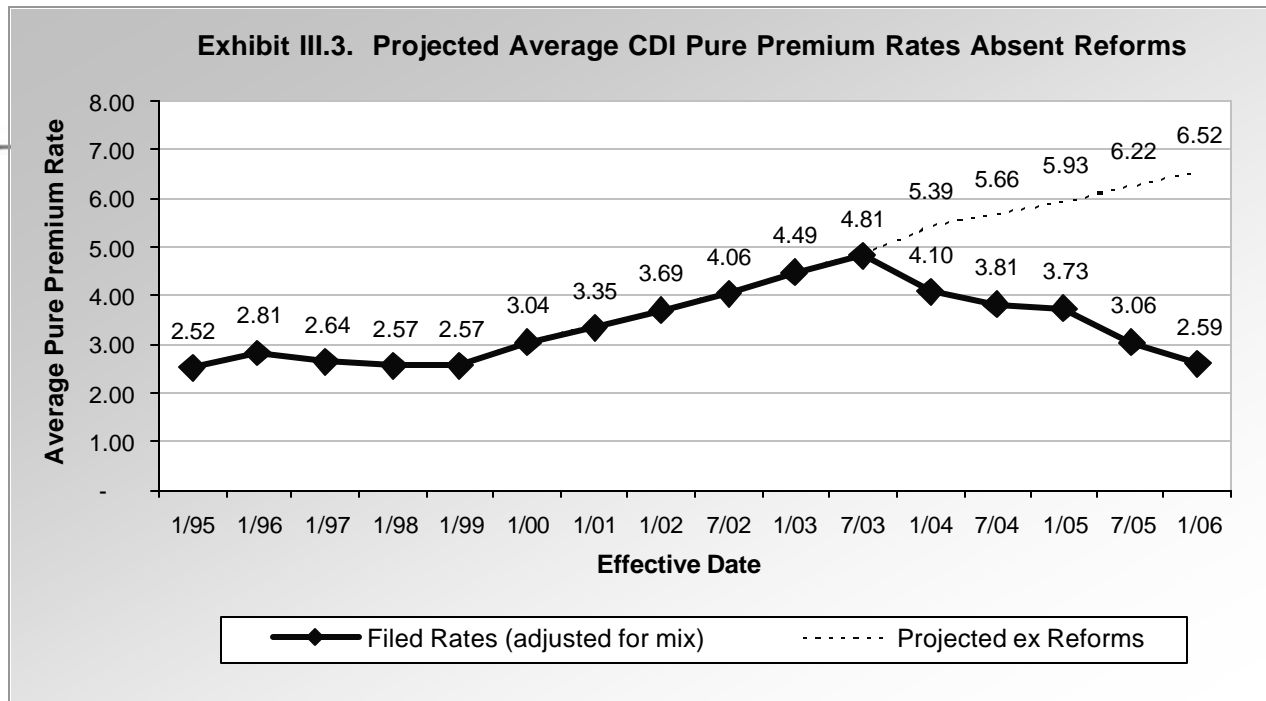
Prospective Impact of Reforms

- **Claims Costs: Dollars**



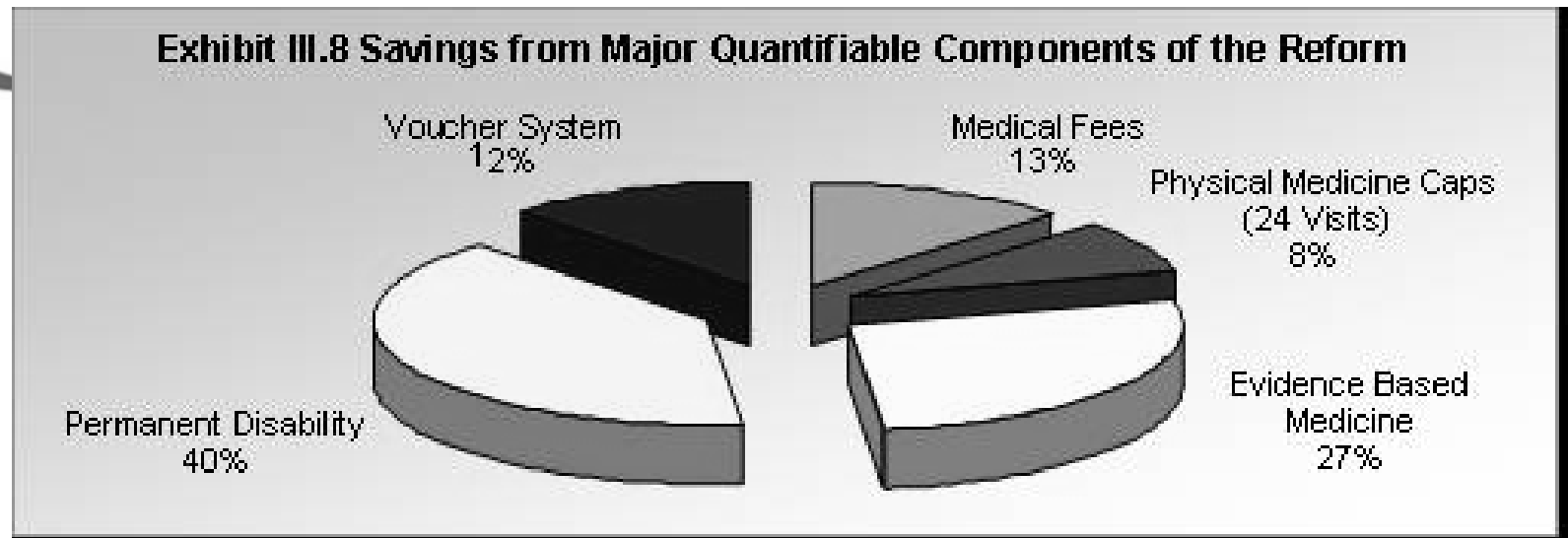
Prospective Impact of Reforms

- Claims Costs: Percent



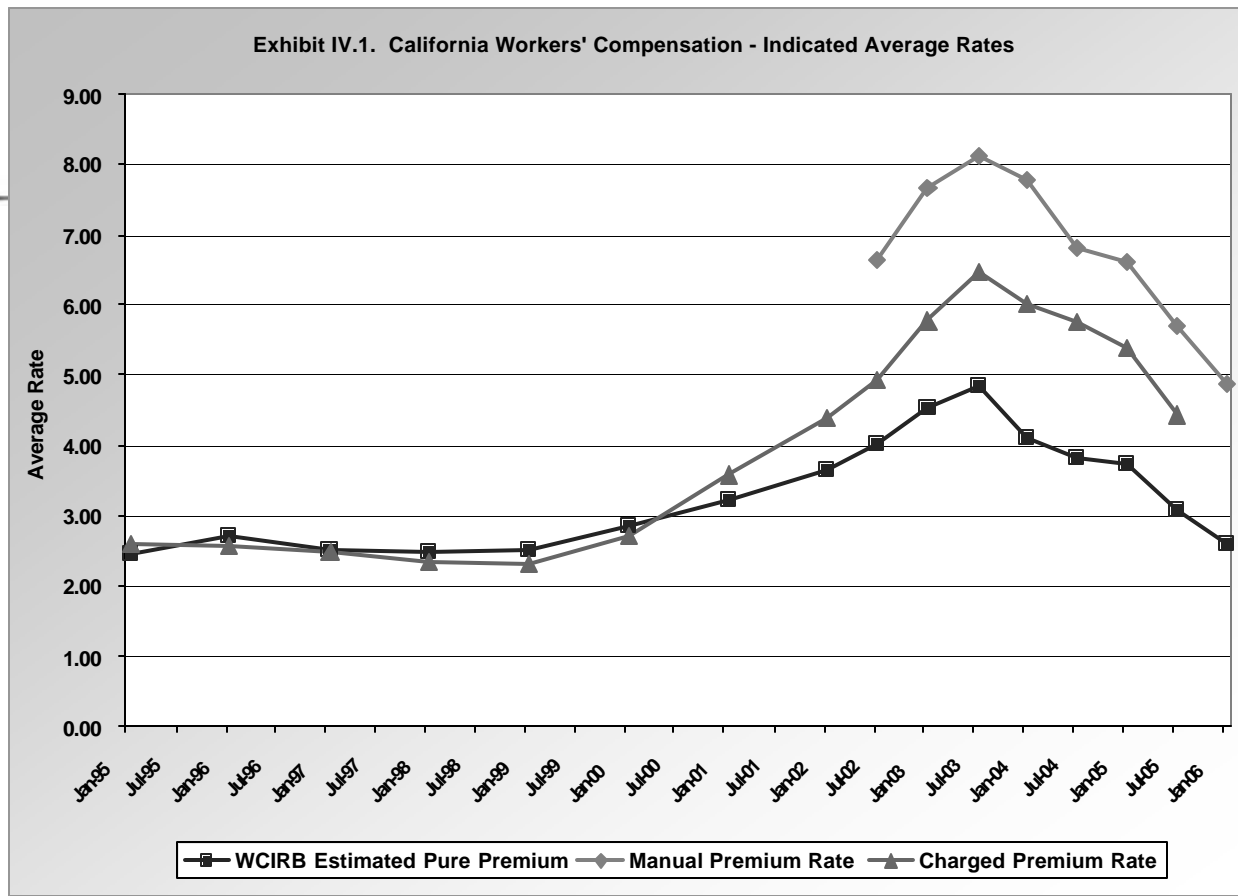
Prospective Impact of Reforms

- **Claims Costs by Major Component**



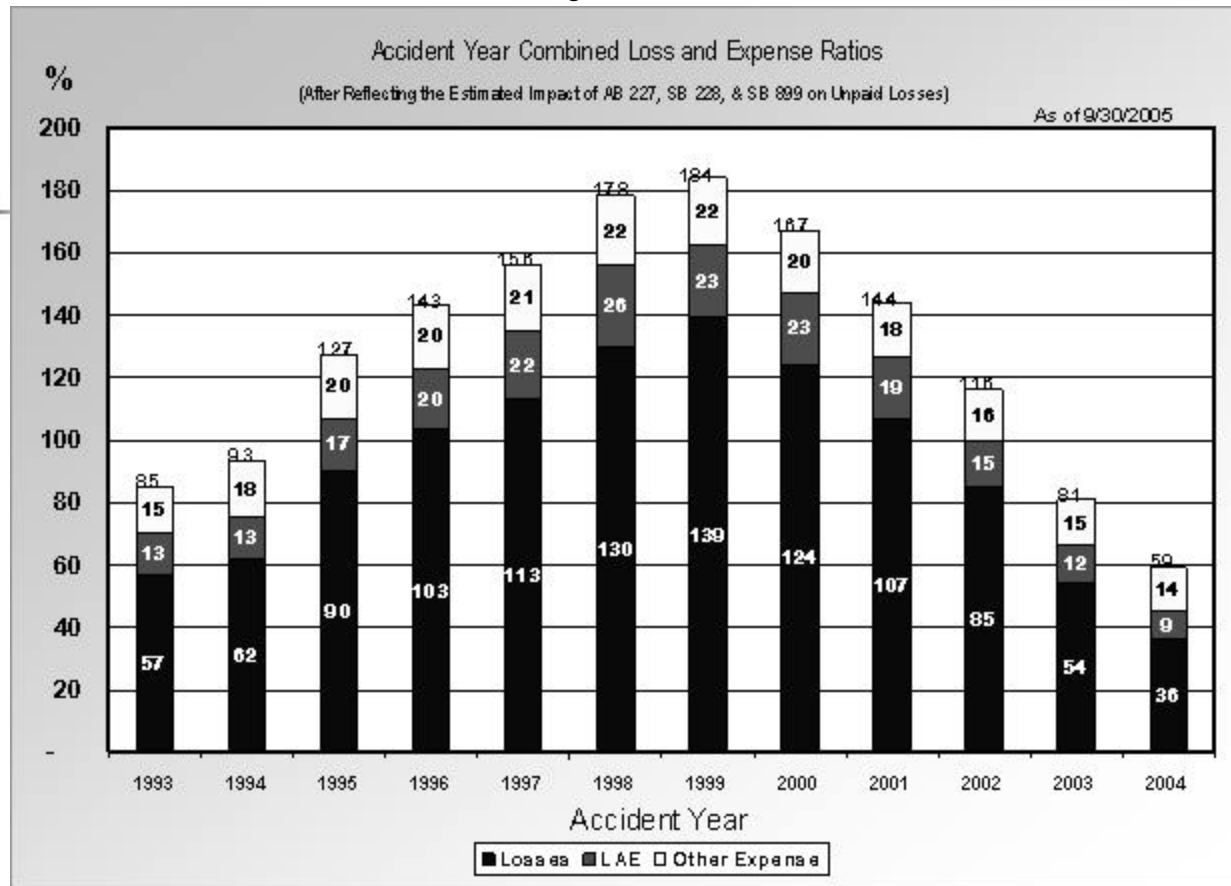
Prospective Impact of Reforms

•Insurance Company Rates



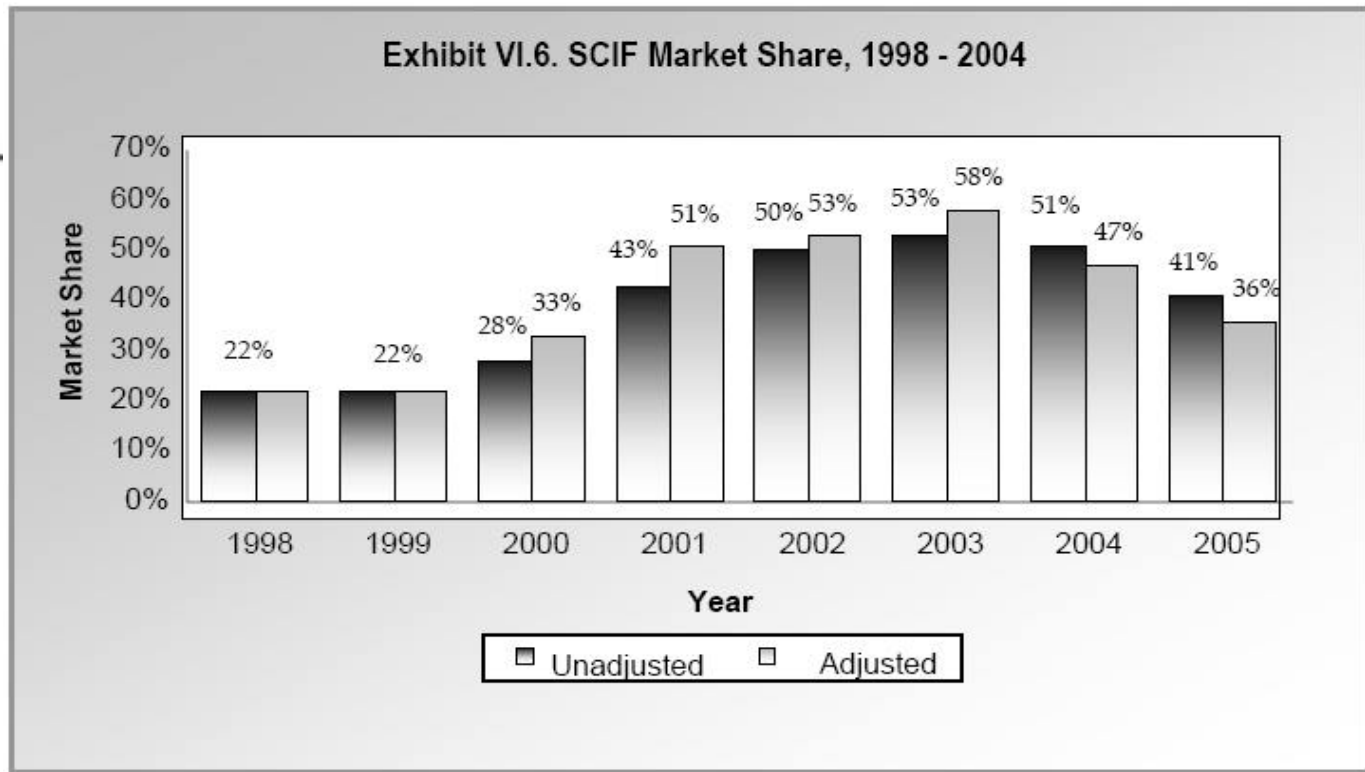
Prospective Impact of Reforms

- Insurance Industry Return to Profit



Prospective Impact of Reforms

- Insurance Company Market Share



California vs. Other States

•Loss Rate Comparison

Exhibit IV.9. Pure Premium Relationship to California – Percentage Higher or Lower Approved Pure Premiums at January 1, 2006 Excluding Loss Adjustment Expense			
Higher than California		Lower than California-	
More than 25% Higher	Less than 25% Higher	Less than 25% Lower	More than 25% Lower
Florida	Alaska	Minnesota	Arizona
Montana	Texas		Colorado
			Hawaii
			Massachusetts
			Michigan
			Nevada
			New York
			Oregon
			Wisconsin
Note: Approved Pure Premiums in California have declined by more than 40% since July 2003.			



Uncertainties Remain

**Future and Retroactive Cost Savings
will be impacted by:**

- **Changes due to Legal Decisions**
- **Legislative Changes**
- **Regulatory Changes**
- **Changes to System through Voter Initiatives**



Study Availability

- **The Study can be downloaded on the internet from:**
- **BRSrisk.com**
- **dir.ca.gov/DWC**
- **Or by requesting a CD from BRS or DWC**

